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Ideas for the New Administration: *Higher Education*

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Higher education took center stage during the Democratic presidential primaries, and congressional leaders in the party are calling for universal student loan forgiveness and tuition-free public college. The incoming Biden administration will thus face pressure to radically expand subsidies for higher education.¹

Conservatives and moderates tend to reject socializing higher education or declaring a federal student-loan jubilee, which matters because—progressive pressure notwithstanding—Biden will need to work with a Congress that is balanced politically and in which radical measures are unlikely to advance. The good news is that a number of sensible measures are capable of attracting bipartisan support and improving the circumstances of college students and aspiring college students who are truly in need of more help. These measures involve:

- **Pell Grants**
- **College loans**
- **Nontraditional higher education**

1. **Pell Grants**

Instead of free tuition, Congress and the Biden administration should target federal spending to support college students who are most in need. In particular, they should “front-load” Pell Grants to make the initial years of these students’ education less expensive.

The notion of universal free college tuition is romantic. But in practice, such a policy would be the opposite of “progressive”—the benefits would disproportionately accrue to the already well-off. The reason is simple but often overlooked: existing federal grant programs already target the largest amounts of aid to the students most in need of financial help. Covering the cost of tuition for everyone would generally mean making college cheaper for less needy students and families.

A better approach for expanding access to higher education would be to make use of the existing progressive structure of state and federal grant aid. Additional spending can be crafted to lower the economic barriers to enrollment for disadvantaged students, which include not only their tuition but also their cost of living while enrolled.

Biden's plan proposes doubling Pell Grants under the existing eligibility rules.² There is a budget-friendlier alternative: revise the grant eligibility schedule so that more of the funds already available to students over the course of their college careers are available to them in their initial semesters of enrollment. This policy would allow aspiring students to experiment with a semester or two of college without necessarily having to take on debt to do so. That matters because students who start college but don't finish are among the most likely to have trouble paying back their loans. It would not, however, increase the subsidy to those who eventually graduate—that is, to people who can pay back their loans with relative ease.

Shifting more Pell Grant funds available to students earlier in their college years may mean higher federal spending than at present. But the budgetary impact would be smaller. That's because it would likely offset some of the federal student loans that end up being forgiven after years of costly servicing that is paid for by taxpayers. Alternatively, a budget-neutral version of this plan would likely require a slight reduction in the total amount of grant dollars that students are eligible for during their college careers.

[Read more](#)

Beth Akers, "Forgiveness Isn't Divine When It Comes to Student Debt," *Wall Street Journal*, Dec. 16, 2019

Akers, "Don't Ruin College by Making It Free: Threats to Quality and Innovation Outweigh Benefit of Increased Access," *Education Next*, *Higher Education* (blog), Mar. 9, 2020

2. College loans

Congress and the Biden administration can shore up the student loan safety nets by streamlining loan repayments and creating a regulatory framework for income-share agreements.

In 2019, more than 1 million new borrowers defaulted on their student loans. Some of them did so needlessly, since there is a generous safety net that forgives truly unaffordable debt and allows for reduced payments to be made (without penalty) when earnings aren't high enough to affordably make payments. The problem is that the safety net was built through a patchwork of legislation and executive action. The result is an inefficient, complex system that is difficult for borrowers to navigate; many students are unaware that it even exists.

To ensure that no borrower faces undue hardship as a result of holding federal student debt, Congress can replace the current set of income-driven repayment plans with a single plan that borrowers are automatically enrolled in when they finish school. Payments should be collected through the IRS, via income-tax filings, such that administrative barriers do not stand in the way of successful repayment.

Legislation is also needed to put in place a regulatory framework for income-share agreements (ISAs). These are private financial instruments that allow students to borrow for college but repay only if their education pays dividends in the form of higher wages. ISAs offer a safer alternative to private student loans but are currently being originated in an unregulated environment. The lack of regulation makes it more expensive to fund ISAs than it otherwise would be (which raises the cost for students) and leaves the door open for predatory practices.

[Read more](#)

Beth Akers, "Issues 2020: Millennials Aren't Drowning in Student Debt," Manhattan Institute, October 2019

Katerina Nikalexi and Constantine Yannellis, "How to Lower Student Loan Defaults: Simplify Enrollment in Income-Driven Repayment Plans," Manhattan Institute, December 2019

Sheila Bair and Preston Cooper, "The Future of Income-Share Agreements: Policy and Politics," Manhattan Institute, March 2019

3. **Nontraditional higher education**

The Biden administration should experiment with enabling innovative institutions of higher education access to the same subsidies afforded to traditional, academically oriented colleges and universities.

Traditional higher education has fallen short in providing educational and career placement services that meet the needs of many individuals in our economy. With the same support received by traditional institutions, innovative models of education and pathways to career could more effectively expand access to social mobility at a lower cost. Since new models of education are inherently untested, a slow and experimental approach to this expansion of federal student aid eligibility is warranted. Lessons learned should inform future reimagining of the Higher Education Act, which is long overdue for reauthorization.

[*Read more*](#)

Nathan Arnold, Jessica Morales, and Bethany Little, “How Federal Higher-Education Policy Can Safely Support Innovation,” Manhattan Institute, December 2019

Trace Urdan and Preston Cooper, “Taking Education to Students: How Public Universities Have Lagged Online and What They Can Do to Catch Up,” Manhattan Institute, December 2019

Endnotes

- ¹ Abigail Hess, “Chuck Schumer Says Biden Could Forgive \$50,000 in Student Debt with Executive Order,” cncb.com, Nov. 17, 2020.
- ² “The Biden Plan for Education Beyond High School,” joe Biden.com.

About Transition 2021

As President Biden assumes office, his administration and the 117th Congress face several pressing tasks. Among them: accelerating the pace of recovery from the pandemic, helping to get schools reopened and students back on track, and restoring safety to the many American cities afflicted by unrest and rising violence. In these briefs, Manhattan Institute fellows offer actionable ideas for the new government—proposals for educational pluralism, executive branch prudence, economic revitalization, evidence-based criminal justice reform, fair and efficient health care, near-term fiscal relief, and long-term fiscal discipline. Each brief contains specific recommendations for Congress or the new administration, along with links to further reading. Taken together, these recommendations represent an agenda for fostering the growth and opportunity that America desperately needs in the wake of the pandemic.

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